ALERUS
FINANCIAL CORPORATION

Dan J. Cheever, Chief Financial Officer
612.436.3503 (Office)

FOR RELEASE (07.29.2016—16:00)

ALERUS FINANCIAL CORPORATION REPORTS SECOND QUARTER 2016 RESULTS OF $2.9 MILLION NET INCOME

GRAND FORKS, ND (July 29, 2016) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of $2.9 million for the second quarter of 2016, or $0.21 per diluted common share, compared to $5.4 million, or $0.38 per diluted common share, for the second quarter of 2015.

Second quarter 2016 financial highlights:

- Revenue of $43.3 million, an increase of $4.7 million, or 12.3 percent, from second quarter of 2015
  - Banking division revenue of $18.0 million, an increase of 17.3 percent from second quarter of 2015
  - Retirement division revenue of $14.3 million, an increase of 4.7 percent from second quarter of 2015
  - Mortgage division revenue of $8.1 million, an increase of 8.8 percent from second quarter of 2015
  - Wealth management division revenue of $3.0 million, an increase of 36.7 percent from second quarter of 2015
- Non-interest expense increased $8.5 million from the second quarter of 2015, which includes non-recurring acquisition expenses of $2.1 million and increased intangible amortization of $1.2 million, compared to the second quarter of 2015
- Return on average assets (ROA) of 0.61 percent, compared to 1.44 percent for the second quarter of 2015
- Return on average common equity (ROE) of 7.06 percent, compared to 13.43 percent for the second quarter of 2015
- Return on tangible common equity (ROTCE) of 13.56 percent, compared to 15.74 percent for the second quarter of 2015
- Net interest margin of 3.79 percent, compared to 3.89 percent for the second quarter of 2015

Second quarter results included:

- Total assets decreased $114.3 million, or 5.6 percent, during the quarter, to $1.9 billion
  - Loans and leases increased $39.7 million, or 3.0 percent, during the quarter, to $1.4 billion
  - Cash and due from banks decreased $142.7 million, reflecting a return to normal cash levels following the acquisitions in the first quarter
  - Deposits decreased $90.3 million, or 5.1 percent, during the quarter, to $1.7 billion
- Assets under administration increased $308.9 million, or 1.3 percent, to $24.0 billion
- Assets under management increased $241.1 million, or 8.0 percent, to $3.3 billion
- Mortgage originations totaled $310.6 million, compared to $309.5 million for the second quarter of 2015
- Nonperforming assets decreased $3.0 million from the first quarter of 2016, to $12.4 million
- Allowance for loan losses to nonperforming loans was 154.0 percent at June 30, 2016, compared with 111.3 percent at March 31, 2016

CEO Comments

Alerus Financial Corporation Chairman, President, and Chief Executive Officer Randy Newman stated, "During the first half of 2016, Alerus has focused on successfully integrating the acquisitions of Beacon Bank and Alliance Benefit Group North Central States (ABGNCS). These acquisitions increased revenue, however anticipated non-recurring conversion and integration expenses offset some of these revenue gains in the first and second quarters. Once fully integrated, non-interest expenses in the acquired businesses will be further reduced as planned post conversion expense reductions are also realized."

SELECTED FINANCIAL DATA								
(Dollars in thousands)				Percentage	Percentage			
(Unaudited)				Change	Change			
	2Q	1Q	2Q	2Q16	2Q16	YTD	YTD	
				vs	vs			Percentage
	2016	2016	2015	1Q16	2Q15	2016	2015	Change
Net income	$ 2,940	$ 2,902	$ 5,409	1.3	(45.6)	$ 5,842	$ 9,443	(38.1)
Net income applicable to common stock	$ 2,940	$ 2,877	$ 5,359	2.2	(45.1)	$ 5,817	$ 9,343	(37.7)
Earnings per share	$ 0.21	$ 0.21	$ 0.38	-	(44.7)	$ 0.42	$ 0.67	(37.3)
Return on average assets	0.61%	0.61%	1.44%	0.1	(57.6)	0.61%	1.27%	(52.0)
Return on average common equity	7.06%	6.97%	13.43%	1.4	(47.4)	7.02%	11.91%	(41.1)
Net interest margin (tax equivalent)	3.79%	3.40%	3.89%	11.6	(2.5)	3.60%	3.93%	(8.4)
Efficiency ratio	87.37%	85.34%	76.19%	2.4	14.7	86.41%	77.97%	10.8
Dividends declared per common share	$ 0.11	$ 0.11	$ 0.10	-	10.0	$ 0.22	$ 0.20	10.2
Book value per common share	$ 12.49	$ 12.29	$ 11.80	1.6	5.8			

Earnings Summary

Alerus reported net income of $2.9 million, or $0.21 per diluted common share, for the second quarter of 2016, compared with the $5.4 million, or $0.38 per diluted common share, for the second quarter of 2015 and $2.9 million, or $0.21 per diluted common share, for the first quarter of 2016. Return on average assets was 0.61 percent for the second quarter of 2016, compared with 1.44 percent for the second quarter of 2015 and 0.61 percent for the first quarter of 2016. Return on average common equity was 7.06 percent for the second quarter of 2016, compared with 13.43 percent for the second quarter of 2015 and 6.97 percent for the first quarter of 2016. First half results included $3.4 million of non-recurring expenses related to the acquisitions of ABGNCS and Beacon Bank, $1.3 million in the first quarter and $2.1 million during the second quarter. Both acquisitions occurred in January 2016, and are in the process of being integrated into Alerus.

Balance Sheet Highlights

Total assets at June 30, 2016, were $1.9 billion, an increase of $370.8 million from June 30, 2015. The increase from 2015 is primarily a result of the acquisition of Beacon Bank in January 2016. Loans and leases have increased by $215.3 million, investments by $92.4 million, and goodwill and intangibles by $37.7 million. Deposits have increased by $370.2 million, including $309.7 million from the acquisition of Beacon Bank. Net borrowings have remained flat, from the second quarter of 2015, although the composition of the borrowings has been restructured and extended to include the issuance of $49.4 million of subordinated notes payable and the assumption of $7.8 million of Trust Preferred Securities.

During the quarter, total assets decreased by $114.3 million, from $2.05 billion to $1.93 billion, as $164.7 million of funds from cash and investments, were utilized to fund loan growth of $39.7 million, repay long term debt of $20.0 million, and reduce deposits by $90.2 million.

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars and shares in thousands, except per share data)	June 30, 2016	March 31, 2016	June 30, 2015
Assets	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	$ 71,477	$ 214,193	$ 38,620
Investment securities			
Trading	2,018	1,998	2,445
Available-for-sale	269,305	291,279	176,448
Total investment securities	271,323	293,277	178,893
Mortgages held for sale	56,859	43,331	83,875
Loans and leases			
Loans and leases	1,371,917	1,332,239	1,156,587
Allowance for loan losses	(16,229)	(15,458)	(18,414)
Net loans and leases	1,355,688	1,316,781	1,138,173
Premises and equipment	25,799	26,089	21,043
Bank-owned life insurance	34,073	33,861	27,891
Goodwill	27,682	27,053	6,259
Other intangible assets, excluding servicing assets	34,349	36,754	18,011
Deferred tax assets, net	12,618	13,071	14,234
Other assets	44,116	43,830	36,141
Total assets	$ 1,933,984	$ 2,048,240	$ 1,563,140
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	$ 485,734	$ 459,965	$ 340,883
Interest-bearing	938,025	1,046,205	711,550
Time deposits	252,071	259,914	253,116
Total deposits	1,675,830	1,766,084	1,305,549
Short-term borrowings	2,647	8,174	39,055
Long-term debt	9,090	29,101	21,443
Subordinated notes payable, net	49,406	49,391	-
Other liabilities	28,474	29,557	18,666
Total liabilities	1,765,447	1,882,307	1,384,713
Stockholders' equity			
Preferred stock and related surplus	-	-	20,000
Common stock and related surplus	37,027	36,611	39,714
Retained earnings	128,437	127,037	117,436
Accumulated other comprehensive income, net	3,073	2,285	1,277
Total stockholders' equity	168,537	165,933	178,427
Total liabilities and equity	$ 1,933,984	$ 2,048,240	$ 1,563,140
Common shares outstanding	13,497	13,496	13,426
Book value per common share	$ 12.49	$ 12.29	$ 11.80

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income

(Dollars and shares in thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
(Unaudited)	2016	2015	2016	2015
Interest Income				
Loans and leases, including fees	$ 16,528	$ 12,990	$ 31,310	$ 25,639
Investment securities	1,483	1,069	3,078	2,283
Other interest income	74	11	243	23
Total interest income	18,085	14,070	34,631	27,945
Interest Expense				
Deposits	751	678	1,650	1,335
Other borrowed funds	987	154	2,018	300
Total interest expense	1,738	832	3,668	1,635
Net interest income	16,347	13,238	30,963	26,310
Provision for credit losses	1,020	675	2,040	1,350
Net interest income after provision for credit losses	15,327	12,563	28,923	24,960
Non-interest Income				
Retirement services	14,259	13,618	29,773	26,291
Wealth management	2,977	2,178	5,804	4,367
Mortgage banking	8,093	7,439	12,435	12,020
Service charges on deposit accounts	457	393	938	771
Other	1,175	1,698	2,396	3,477
Total non-interest income	26,961	25,326	51,346	46,926
Non-interest Expense				
Salaries	17,960	15,997	33,538	29,366
Employee benefits	3,718	2,806	8,392	6,614
Net occupancy expense	1,589	1,200	3,143	2,512
Furniture and equipment expense	1,538	1,227	3,118	2,524
Intangible amortization expense	1,776	551	3,475	2,250
Other	11,258	7,601	19,456	13,837
Total non-interest expense	37,839	29,382	71,122	57,103
Income before income taxes	4,449	8,507	9,147	14,783
Applicable income taxes	1,509	3,098	3,305	5,340
Net income	2,940	5,409	5,842	9,443
Less: Preferred dividends	-	50	25	100
Net income applicable to common stock	$ 2,940	$ 5,359	$ 5,817	$ 9,343
Diluted earnings per common share	$ 0.21	$ 0.38	$ 0.42	$ 0.67
Diluted average common shares outstanding	14,002	13,967	13,989	13,951

Alerus Financial Corporation and Subsidiaries

Statements of Cash Flows

(Dollars in Thousands)	Six months ended June 30, 2016	Six months ended June 30, 2015
Operating Activities	(Unaudited)	(Unaudited)
Net income	$ 5,842	$ 9,443
Provision for credit losses	2,040	1,350
Depreciation, amortization and other	5,162	2,713
Other adjustments to net income	(307)	1,232
Changes in liabilities	(4,803)	(4,362)
Changes in other operating activities	(25,589)	438
Total cash flows from operating activities	(17,655)	10,814
Investing Activities		
Purchases of premises and equipment	(5,069)	(1,080)
Investments, net	(78,980)	27,208
Loans, net	(251,672)	(109,961)
Cash paid for business combinations	(46,919)	(3,722)
Other cash flows from investing activities	220	425
Total cash flows used by investing activities	(382,420)	(87,130)
Financing Activities		
Dividends paid	(3,150)	(2,889)
Purchase of stock	(55)	-
Deposits	217,809	43,382
Net borrowings	(9,601)	28,472
Other cash flows from financing activities	390	445
Total cash flows from (used by) financing activities	205,393	69,410
Change in cash and cash equivalents	(194,682)	(6,906)
Cash and cash equivalents at beginning of period	266,159	45,526
Cash and cash equivalents at end of period	$ 71,477	$ 38,620

Revenue
Total net revenue for the second quarter of 2016 was $43.3 million, $4.7 million, or 12.3 percent, higher than the second quarter of 2015, reflecting a 23.5 percent increase in net interest income and a 6.5 percent increase in non-interest income. The increase in net revenue was largely the result of an increase in net interest income, due to higher average earning assets from the acquisition of Beacon Bank and higher retirement services income from the acquisition of ABGNCS. Non-interest income represented 62.3 percent of total revenue for the second quarter of 2016, as compared to 65.7 percent for the same period in 2015.

Net Interest Income
Net interest income in the second quarter of 2016 was $16.3 million, compared with $13.2 million in the second quarter of 2015, an increase of $3.1 million, or 23.5 percent. The primary reason for the increase in net interest income was the higher earning asset balances resulting from the Beacon Bank acquisition. Average earning assets were $1.7 billion for the second quarter of 2016, compared with $1.4 billion for the same period in 2015, an increase of $371 million, or 26.9 percent. Earning assets increased by $9 million from the first quarter of 2016. Net interest margin on a tax-equivalent basis in the second quarter of 2016 was 3.79 percent, compared with 3.89 percent in the second quarter of 2015, and 3.40 percent in the first quarter of 2016. The net interest margin has continued to trend downward due to the lower interest rate environment with the repricing of loans at lower rates. During the fourth quarter of 2015, the Company issued $50 million of subordinated debentures and retained higher than normal levels of cash for the acquisitions which closed in January 2016, impacting the net interest margin for the first half of 2016.

Total loans as of June 30, 2016, were $1.37 billion, compared to $1.16 billion as of June 30, 2015, an increase of $215.3 million, or 18.6 percent. During the quarter, the loan portfolio increased by $39.7 million, or 3 percent.

Total investment securities were $271.3 million on June 30, 2016, compared to $178.9 million as of June 30, 2015, an increase of $92.4 million, or 51.7 percent, primarily due to the Beacon Bank acquisition.

Total deposits were $1.68 billion on June 30, 2016, compared to $1.31 billion as of June 30, 2015, an increase of $370 million, or 28.4 percent, primarily as a result of the acquisition of Beacon Bank in January 2016 and organic growth. During the second quarter, deposits decreased by $90.3 million and the Company prepaid $20 million of FHLB advances, reducing liquidity levels after the acquisitions.

Non-Interest Income
Second quarter non-interest income was $27.0 million, $1.6 million, or 6.5 percent, higher than the second quarter of 2015 and 10.6 percent higher than the first quarter of 2016. For the six months ending June 30, 2016, non-interest income was $51.3 million, $4.4 million, or 9.4 percent higher than the same period in 2015. Retirement Services income was $14.3 million, an increase of $0.6 million, or 4.7 percent from the second quarter of 2015 and 8.1 percent lower than the first quarter of 2016. For the six months ending June 30, 2016, Retirement Services income was 13.2 percent higher than the same period in 2015. The growth in retirement services income has been a result of higher assets under administration, which have increased to $24.0 billion from $17.8 billion at June 30, 2015, primarily as a result of the ABGNCS acquisition. Mortgage banking fees increased to $8.1 million, or 8.8 percent, from $7.4 million reported for the second quarter of 2015. Mortgage originations for the second quarter of 2016 totaled $310.7 million, 78 percent from purchase mortgages and 22 percent from refinancing existing mortgages. This level of mortgage production may or may not continue into the future since it is dependent on the current level of interest rates and general economic conditions.

NON-INTEREST INCOME								
(Dollars in thousands)				Percentage	Percentage			
(Unaudited)				Change	Change			
	2Q	1Q	2Q	2Q16	2Q16	YTD	YTD	
				vs	vs			Percentage
	2016	2016	2015	1Q16	2Q15	2016	2015	Change
Retirement services	$ 14,259	$ 15,514	$ 13,618	(8.1)	4.7	$ 29,773	$ 26,291	13.2
Wealth management	2,977	2,827	2,178	5.3	36.7	5,804	4,367	32.9
Mortgage banking	8,093	4,342	7,439	86.4	8.8	12,435	12,020	3.5
Service charges on deposit accounts	457	481	393	(5.0)	16.3	938	771	21.7
Other	1,175	1,221	1,698	(3.8)	(30.8)	2,396	3,477	(31.1)
Total non-interest income	$ 26,961	$ 24,385	$ 25,326	10.6	6.5	$ 51,346	$ 46,926	9.4

Non-Interest Expense

Total non-interest expense in the second quarter of 2016 was $37.8 million, $8.5 million, or 28.8 percent, higher than the second quarter of 2015, and $4.6 million, or 13.7 percent, higher than the first quarter of 2016. The increase in total non-interest expense was partially due to expenses related to the acquisitions of ABGNCS and Beacon Bank, which include one-time conversion and integration expenses and personnel and other legacy costs of the acquired companies, some of which will be eliminated in the post-conversion environment. Non-recurring acquisition related expenses were $2.1 million during the second quarter of 2016.

Salaries expense in the second quarter of 2016 was $18.0 million, $2.0 million, or 12.3 percent higher than the second quarter of 2015, and $2.4 million, or 15.3 percent, higher than the first quarter of 2016. The increase in salary expense from 2015 to 2016 is due to the additional salaries from the acquisitions of ABGNCS and Beacon Bank, the addition of employees to strengthen the infrastructure of the Company during the past year, and higher mortgage production based incentive compensation. Employee benefits were $3.7 million for the second quarter of 2016, a 32.5 percent increase over the same period in 2015 and a 20.5 percent decrease over the first quarter of 2016. Benefit expenses are typically higher during the first quarter of the year, due to the payroll tax limits and increases in insurance costs. The full-time equivalent number of employees has increased from 644 at June 30, 2015, to 801 at June 30, 2016, as a result of the acquisitions and the addition of a number of employees to further strengthen the infrastructure of the Company.

Alerus has acquired eighteen companies since 2002 creating identified intangible assets of $34.3 million and $27.7 million of goodwill on the balance sheet. The identified intangible assets amortize and the resulting amortization expense for the second quarter of 2016 was $1.8 million, $1.2 million higher than the second quarter of 2015, and $77 thousand higher than the first quarter of 2016. For the first half of 2016, Alerus has amortized $3.5 million of intangible assets, an increase of $1.2 million, or 54.4 percent. The amortization schedules vary based on the attributes of the identified intangibles and will fully amortize by December 31, 2025. The acquisitions of ABGNCS and Beacon Bank in January 2016 created additional goodwill of $23.4 million and identified intangibles of $20.2 million, which the identified intangibles portion will be amortized over five and ten year periods.

Alerus prepaid $20 million of FHLB advances during the second quarter, incurring a prepayment penalty of $414 thousand, which will be offset through lower interest expense in future periods.

NON-INTEREST EXPENSE								
(Dollars in thousands)				Percentage Change	Percentage Change			
(Unaudited)	2Q 2016	1Q 2016	2Q 2015	2Q16 vs 1Q16	2Q16 vs 2Q15	YTD 2016	YTD 2015	Percentage Change
Salaries	$ 17,960	$ 15,578	$ 15,997	15.3	12.3	$ 33,538	$ 29,366	14.2
Employee benefits	3,718	4,674	2,806	(20.5)	32.5	8,392	6,614	26.9
Net occupancy expense	1,589	1,554	1,200	2.3	32.4	3,143	2,512	25.1
Furniture and equipment expense	1,538	1,580	1,227	(2.7)	25.3	3,118	2,524	23.5
Intangible amortization expense	1,776	1,699	551	4.5	222.2	3,475	2,250	54.4
Marketing and business development	875	739	613	18.4	42.7	1,614	1,051	53.6
Supplies, telephone and postage	1,653	1,293	964	27.8	71.5	2,946	1,923	53.2
FDIC insurance	438	376	264	16.5	65.9	814	529	53.9
Professional fees- legal, audit and consulting	1,023	974	449	5.0	127.8	1,997	1,091	83.0
Correspondent and other contracted services	3,677	2,738	2,309	34.3	59.2	6,415	4,619	38.9
Other	3,592	2,078	3,002	72.9	19.7	5,670	4,624	22.6
Total non-interest expense	$ 37,839	$ 33,283	$ 29,382	13.7	28.8	$ 71,122	$ 57,103	24.6

Capital

Total common stockholders' equity was $168.5 million at June 30, 2016, compared to $165.9 million at March 31, 2016, and $158.4 million at June 30, 2015. Total equity was $168.5 million at June 30, 2016, compared to $165.9 million at March 31, 2016, and $178.4 million at June 30, 2015. Included in total stockholders' equity, throughout 2015, was $20 million in preferred stock, representing funds received from the Small Business Lending Fund (SBLF) in August 2011. The SBLF funds had an initial dividend rate of 1 percent for five years and were provided by the U.S. Treasury to stimulate small business lending. The Company redeemed the SBLF preferred stock on February 16, 2016, as the dividend rate was scheduled to reset to 9.0 percent. The SBLF preferred stock qualified as Tier 1 capital for regulatory purposes.

In December 2015, the Company issued $50 million of subordinated debentures with an initial interest rate of 5.75 percent for five years and then converting to floating rate notes that reset quarterly to an interest rate equal to three month LIBOR plus 412 basis points. The proceeds of the subordinated debentures was utilized to retire the SBLF preferred stock and for the acquisitions of ABGNCS and Beacon Bank. The subordinated debentures qualify as Tier 2 capital for regulatory purposes, but are classified as long term debt on the Company's balance sheet.

The Company assumed $10.0 million of Trust Preferred Securities (TRUPS) from the parent company of Beacon Bank in the acquisition, which was recorded at fair value of $7.8 million. The TRUPS are classified as long term debt on the balance sheet, but qualify as Tier 1 capital for regulatory purposes.

The acquisitions of ABGNCS and Beacon Bank increased the Company's goodwill by $24.0 million and intangible assets by $20.2 million, which impacts regulatory and tangible capital ratios. Goodwill is deducted from regulatory capital and intangible assets are deducted on a phased-in basis, currently at 60 percent of the outstanding balance. Tangible capital and tangible assets are reduced by the total $62.0 million of goodwill and intangible assets on the balance sheet.

The transactions set forth above had a significant impact on the regulatory capital levels of the Company. The common equity Tier 1 capital ratio was 6.95 percent at June 30, 2016, as compared to 7.01 percent at March 31, 2016, and 10.12 percent at June 30, 2015. The Tier 1 capital ratio was 7.41 percent at June 30, 2016, compared with 7.48 percent at March 31, 2016, and 11.52 percent at June 30, 2015. The total risk based capital ratio was 11.36 percent at June 30, 2016, compared to 11.52 percent at March 31, 2016, and 12.77 percent at June 30, 2015. Tier 1 leverage ratio was 6.50 percent at June 30, 2016, as compared to 6.41 percent at March 31, 2016, and 11.05 percent at June 30, 2015.

The Company exceeded “well capitalized” levels for regulatory purposes on all, except the Tier 1 capital ratio at June 30, 2016, which was “adequately capitalized.” Based on the Company’s risk weighted assets as of June 30, 2016, Tier 1 capital was $9.9 million below the amount required to be considered “well capitalized” for Tier 1 capital ratio purposes. Alerus Financial N.A., the Bank, exceeded “well capitalized” levels for all regulatory capital ratios.

The tangible common equity to tangible assets ratio was 5.69 percent at June 30, 2016, compared with 5.15 percent at March 31, 2016, and 8.70 percent on June 30, 2015. Dividends on common shares for the second quarter of 2016 were $0.11 per share, the same as the first quarter of 2016, compared to $0.10 per share for the second quarter of 2015.

CAPITAL POSITION

(Dollars in thousands) (Unaudited)	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Total stockholders' equity	$ 168,537	$ 165,933	$ 182,821	$ 182,032	$ 178,427
Common stockholders' equity	168,537	165,933	162,821	162,032	158,427
Preferred stockholders' equity	-	-	20,000	20,000	20,000
Tangible common equity to tangible assets	5.69%	5.15%	8.19%	8.80%	8.70%
Tangible common equity to risk-weighted assets (2)	6.42%	6.37%	10.21%	9.20%	9.40%
Regulatory Capital: (1)					
Common equity tier 1 capital	115,221	112,329	150,873	148,995	144,946
Tier 1 capital	122,753	119,833	170,472	168,430	164,946
Total risk-based capital	188,389	184,682	235,160	182,406	182,852
Regulatory Capital Ratios: (1)					
Common equity tier 1 capital ratio	6.95%	7.01%	10.92%	10.50%	10.12%
Tier 1 capital ratio	7.41%	7.48%	12.33%	11.87%	11.52%
Total risk-based capital ratio	11.36%	11.52%	17.01%	12.86%	12.77%
Tier 1 leverage ratio	6.50%	6.41%	10.85%	11.28%	11.05%

(1) Estimates. Subject to change prior to filings with applicable regulatory agencies.

Credit Quality

Total nonperforming assets decreased to $12.4 million at June 30, 2016, from $15.5 million at March 31, 2016, and $13.8 million at June 30, 2015. Decreases in nonperforming loans were primarily in the commercial and residential mortgage portfolios. Other real estate owned increased from $1.5 million at March 31, 2016, to $1.8 million at June 30, 2016. Nonperforming assets to loans plus ORE decreased to 0.9 percent at June 30, 2016, from 1.1 percent at March 31, 2016 and June 30, 2015. The allowance for loan losses (ALLL) was $16.2 million at June 30, 2016, compared with $15.5 million at March 31, 2016, and $18.4 million at June 30, 2015. The ALLL to total nonperforming loans was 154.0 percent at June 30, 2016, compared to 111.3 percent at March 31, 2016, and 162.1 percent at June 30, 2015. The Company’s provision for credit losses during the second quarter of 2016 was $1.0 million, compared to $675 thousand in the second quarter of 2015. Less than 1 percent of the Company’s loan portfolio is in energy related loans and less than 2.5 percent is based in western North Dakota, which has experienced an economic slowdown due to energy.

ASSET QUALITY					
(Dollars in thousands)					
(Unaudited)	June 30,	March 31,	December 31,	September 30,	June 30,
Non Performing Loans	2016	2016	2015	2015	2015
Commercial:					
Commercial	$ 2,915	$ 4,926	$ 6,224	$ 2,526	$ 6,766
Commercial real estate	4,065	3,725	2,580	2,598	3,654
Total commercial	6,980	8,651	8,804	5,124	10,420
Consumer:					
Residential mortgages	3,552	5,227	2,326	1,053	849
Other consumer	6	13	22	32	90
Total consumer	3,558	5,240	2,348	1,085	939
Total nonperforming loans	$ 10,538	$ 13,891	$ 11,152	$ 6,209	$ 11,359
Other real estate	1,851	1,543	842	2,128	2,322
Other nonperforming assets	14	16	35	89	42
Total nonperforming assets	$ 12,403	$ 15,450	$ 12,029	$ 8,426	$ 13,723
Accruing loans 90 days or more past due	$ 403	$ 550	$ 1,605	$ 666	$ 184
Nonperforming assets to loans plus ORE	0.9%	1.1%	1.0%	0.7%	1.1%
Allowance for loan losses	$ 16,229	$ 15,458	$ 14,688	$ 13,976	$ 18,414
Allowance for loan losses to total nonperforming loans	154.0%	111.3%	131.7%	225.1%	162.1%

Non-GAAP Financial Measures

Non-GAAP financial measures disclosed by management are meant to provide additional information and insight relative to trends in the business to investors and, in certain cases, to present financial information as measured by rating agencies and other users of financial information. These measures are not in accordance with, or a substitute for, GAAP and may be different from, or inconsistent with, non-GAAP financial measures used by other companies.

NON-GAAP FINANCIAL MEASURES								
(Dollars in thousands)				Percentage	Percentage			
(Unaudited)				Change	Change			
	2Q	1Q	2Q	2Q16	2Q16	YTD	YTD	
				vs	vs			Percentage
	2016	2016	2015	2Q16	2Q15	2016	2015	Change
Average common stockholders' equity	$ 167,376	$ 165,977	$ 160,069			$ 166,670	$ 158,132	
Less: average goodwill	(27,060)	(20,313)	(1,317)			(23,706)	(1,289)	
Less: average other intangibles, net of tax benefit	(21,493)	(21,737)	(13,766)			(21,643)	(14,267)	
Average tangible common equity	$ 118,823	$ 123,927	$ 144,986	(4.1)	(18.0)	$ 121,321	$ 142,576	(14.9)
Net income applicable to common stock	$ 2,940	$ 2,877	$ 5,359			$ 5,817	$ 9,343	
Add: Intangible amortization, net of tax benefits	1,065	1,019	331			2,085	1,350	
Net cash available to common stockholders	$ 4,005	$ 3,896	$ 5,690			$ 7,902	$ 10,693	(26.1)
Return on average tangible common equity								
Return on average common equity (U.S. GAAP basis)	7.06%	6.97%	13.43%			7.02%	11.91%	
Effect of excluding average intangibles	2.89%	2.37%	1.40%			2.62%	1.30%	
Effect of excluding intangible amortization, net of tax benefits	3.61%	3.31%	0.92%			3.46%	1.91%	
Return on average tangible common equity	13.56%	12.65%	15.74%	7.1	(13.9)	13.10%	15.12%	(13.4)
Adjusted cash earnings per share								
Earnings per share* (U.S. GAAP basis)	$ 0.21	$ 0.21	$ 0.38			$ 0.42	$ 0.67	
Effect of excluding intangible amortization, net of tax benefits	0.08	0.07	0.03			0.14	0.10	
Adjusted cash earnings per share*	$ 0.29	$ 0.28	$ 0.41	2.6	(29.8)	$ 0.56	$ 0.77	(26.3)

About Alerus Financial Corporation

Alerus Financial Corporation, through its subsidiaries Alerus Financial, N.A. and Alerus Securities Corporation, offers business and consumer banking products and services, residential mortgage financing, employer-sponsored retirement plan and benefit administration, and wealth management including trust, brokerage, insurance, and asset management. Alerus Financial banking and wealth management offices are located in Grand Forks and Fargo, N.D., the Minneapolis-St.Paul, Minn. metropolitan area, Duluth, Minn., and Scottsdale, Ariz. Alerus Retirement Solutions plan administration offices are located in St. Paul, Minn., Albert Lea, Minn., East Lansing and Troy, Mich., and Manchester, N.H.

Forward-Looking Statements

The following information appears in accordance with the Private Securities Litigation Reform Act of 1995:
This press release contains forward-looking statements about Alerus Financial Corporation. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date made. These forward-looking statements may cover, among other things, anticipated future revenue and expenses and the future plans and prospects of Alerus Financial Corporation. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. Global and domestic economies could fail to recover from the recent economic downturn or could experience another severe contraction, which could adversely affect Alerus Financial Corporation's revenues and the values of its assets and liabilities. Global financial markets could experience a recurrence of significant turbulence, which could reduce the availability of funding to certain financial institutions and lead to a tightening of credit, a reduction of business activity, and increased market volatility. Stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets, could cause additional credit losses and deterioration in asset values. In addition, Alerus Financial Corporation's business and financial performance is likely to be negatively impacted by effects of recently enacted and future legislation and regulation. Alerus Financial Corporation's results could also be adversely affected by continued deterioration in general business and economic conditions; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; cyber-attacks; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management's ability to effectively manage credit risk, residual value risk, market risk, operational risk, interest rate risk, liquidity risk, and cybersecurity.

Forward-looking statements speak only as of the date they are made, and Alerus Financial Corporation undertakes no obligation to update them in light of new information or future events.